CANADA - BRITISH COLUMBIA CROP INSURANCE

FINANCIAL STATEMENTS

For the Year Ended March 31, 1989

AND SELECTED STATISTICS

For the 1988 Crop Year

Agriculture Canada

Hon. Don Mazankowski, Minister

BC

Ministry of Agriculture and Fisheries

Hon. John L Savage, Minister

CANADA - BRITISH COLUMBIA CROP INSURANCE

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91-02866/

British Columbia Cataloguing in Publication Data

Main entry under title:
Canada-British Columbia crop insurance financial statements and selected statistics for the year ended March 31 ... — 1987 —

Annual.
Cover title.
Co-published by British Columbia Ministry of Agriculture and Fisheries.
Includes auditor's report of the B.C. Crop Insurance Branch.
ISSN 0835-7706

1. Insurance, Agriculture - Crops - British Columbia - Statistics Periodicals.
2. British Columbia. Crop Insurance Branch - Appropriations and expenditures - Periodicals.
3. Agriculture and state - British Columbia - Statistics - Periodicals.
I. Canada. Agriculture Canada. II. British Columbia. Ministry of Agriculture and Fisheries.

HG9968.C36 368.1'22

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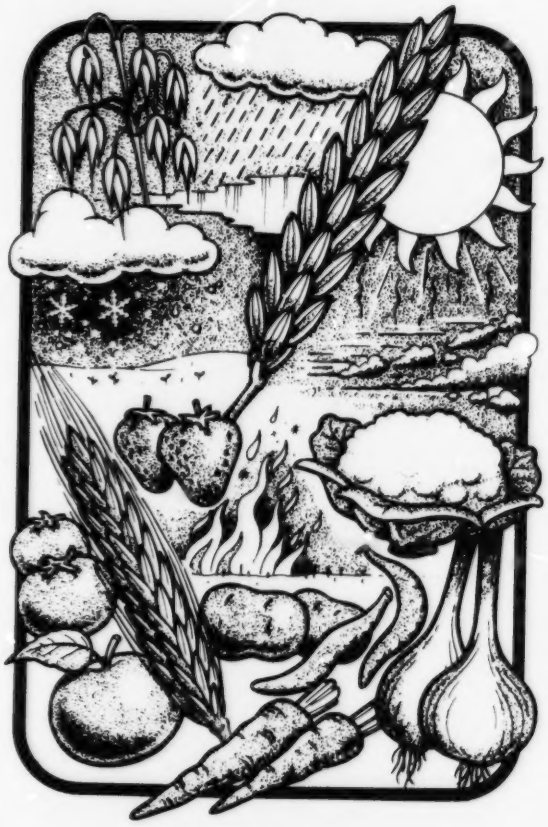
Crop Insurance
Program Overview



Canada - British Columbia Crop Insurance

Program Overview

The Objective

The objective of the Canada - British Columbia Crop Insurance program is to stabilize farm income fluctuations on an individual basis by minimizing the economic effects of crop losses caused by specified natural perils such as drought, hail, flood and frost. The voluntary crop insurance program makes basic crop loss protection available to farmers in the form of a production guarantee. Farmers and the Government of Canada equally share the cost of the premiums while the Government of British Columbia delivers the program and covers all administration costs and debt interest expense.

Coverage

Crop insurance was first offered to British Columbia tree fruit producers in 1967 and to grain, grape and berry farmers in 1968. Since then, the program has grown significantly and has been expanded to seven plans comprising twenty-eight insurable commodities:

PLAN	COMMODITY
Berries	Strawberries, Raspberries, Blueberries and Cranberries
Forage	Forage
Grain	Wheat, Rapeseed, Oats and Barley
Grapes	Grapes
Honey	Honey
Tree Fruit	Apples, Peaches, Apricots, Pears, Plums and Sweet and Sour Cherries
Vegetables	Beans, Peas, Carrots, Onions, Potatoes, Corn, Broccoli, Brussels Sprouts, Cabbage and Cauliflower

Insurance coverage for crop loss may be offered to a maximum level of 80 percent of average yield production.

Extended coverage is available to protect against loss of certain perennial plants as well as the inability to seed grain due to excessive moisture. Hail and fire spot-loss coverages are also included in some plans.

Administration

The crop insurance plan is administered from seven field offices in the province. The head office is located in Victoria, with field offices in Abbotsford, Kelowna, Penticton, Oliver, Williams Lake, Fort St. John and Dawson Creek.

Legislation

The Federal Crop Insurance Act allows Agriculture Canada to enter into an agreement with British Columbia to administer a crop insurance program that conforms with the provisions of the act.

The Government of Canada provides financial assistance to the Canada-British Columbia Crop Insurance Program by contributing 50 percent of the total premium required each year. The federal government's contribution to this program totalled $5 million for 1988-89.

The Government of British Columbia contributes all of the administration costs totalling approximately $3.1 million for 1988-89. Administration costs include operating costs of $1.4 million plus an estimated $1.7 million interest cost which is contributed by the province toward financing the crop insurance deficit.

Advisory Committees

Advisory committees established for each plan are composed of farmers growing one or more of the commodities in the plan. The committees meet with crop insurance staff at least once a year.

The purpose of these meetings is to provide an opportunity for farmer input into the design and development of the program and for the administrators to gain from the advice and views offered by farmers. The names of the current advisory committee members for each plan are listed below.

ADVISORY COMMITTEE MEMBERS AS OF MARCH 31, 1989

Tree Fruit
Jim Campbell (Chairman), Osoyoos
John Schmidt, Winfield
Frank Lauer, Summerland
Jake Van Westen, Naramata
Russell Husch, Winfield
Joe Petretta, Kelowna
Ron Hug, Creston

Vegetables
Jim Harris (Chairman), Delta
Ron Harris, Delta
Robert Savage, Delta
Bagga Dhillon, Abbotsford
Henry Krause, Aldergrove

Grain
Chairman pending

Gordon Hill, Taylor
Malcolm Lucas, Baldonnel
Garry Smolik, Dawson Creek
Douglas Parker, Fort St. John
Horst David, Tomslake

Forage
Norman Hudson (Chairman), Horsefly
Doug Murdock, Waihachin
Whitney Montray, Vanderhoof
Ethelann Stewart, Baldonnel
John Miller, 150 Mile House

Honey
Chairman pending

William (Bill) Ruzicka, Kelowna
Dale Hanson, Farmington

Berries
Chairman pending

Jim Gaskin, Richmond
Harvey Krause, Aldergrove
Darshan Mahil, Abbotsford
June Ross, Abbotsford
Paul Dhillon, Richmond

Grapes
Doug Sperling (Chairman), Kelowna
Lanny Martiniuk, Oliver
Guy Wilson, Naramata
Sue Irvine, Naramata

Appeals

The Contract of Insurance allows an insured farmer to appeal a decision regarding a claim when agreement cannot be reached with the insurer. The appeals are heard by the Arbitration Tribunal consisting of the chairperson, a representative appointed by the appellant and a representative appointed by the appropriate Crop Insurance Advisory Committee.
The appeal process is seen as a desirable way of settling claim disputes which cannot be settled between the insurer and the insured.

Summary of 1988 Crop Year

The crop year for perennial crops is November 1, of one year to October 31 of the following year. Annual crops are covered from April 1 to March 31 of the following year.

In 1988 crop year, 2,388 farmers insured crops for a record coverage totalling $90.2 million. Although adverse weather caused some losses, overall crop year premiums of $9.9 million exceeded claims by $1.3 million.

Premiums exceeded claims in the vegetable, berry, grape, grain and forage plans. Losses were incurred in the tree fruit and honey plans where claims exceeded premiums.

Underwriting losses during 1988 in the forage and berry plans were primarily due to drought. Vegetables and honey suffered from excessive moisture while the grain plan incurred losses from drought, hail and excessive moisture. Hail caused significant damage to tree fruits in 1988.

Further details are provided in the statistical summary.

The Auditor's Report included in this document is for the fiscal year April 1, 1988 to March 31,1989. The accrual basis of accounting includes losses when they occur and not when claims are settled. Therefore due to the severe weather in January 1989 and February 1989 potential claims in the berry and tree fruit plans are noted in the financial statements as "provision for losses incurred."

Future Direction and Goals

The primary objective of the program continues to be to insure at least 70% of farmers and acreage for crop loss due to weather perils while maintaining an actuarially sound program. Several goals have been established to achieve this objective.

1. Increased Participation

The proportion of farmers and crop areas insured under the program varies among plans. Tree fruit and grape plans have high participation rates. Marketing and sales efforts will be emphasized in an effort to increase participation in the vegetable, grain, forage, berry and honey plans.

Additional commodities are being analyzed for inclusion in the crop insurance program as the insurance requirements of the agricultural industry evolve.

2. Reduce Program Debt

Indemnities exceeded premiums by 5.4 million in *fiscal year* 1988, increasing the current debt from accumulated underwriting losses to $20 million. The application of sound underwriting principles to accurately assess risk, a flexible operating budget and the reorganization of the Crop Insurance Branch to allow for a more efficient and effective division of duties are seen as critical factors in reducing the debt. An understatement of risk results in unnecessary losses while an overstatement of risk results in low participation, particularly among low risk farmers.

Individualized underwriting systems are being introduced in all plans.

3. Increased Efficiency

Increasing efficiency is required to achieve the combined goals of increased participation and debt reduction while maintaining current staffing levels. This will be assisted through program automation which is now in the design stage for implementation by March 1990.

4. National Crop Insurance Review

A national committee is currently reviewing all aspects of the crop insurance program. The review will involve consultation with all governments, farm leaders and commodity organizations. The results are expected to be incorporated into amendments to the Federal Crop Insurance Act and Regulation in 1990.

Financial Statements of

B.C. Ministry of Agriculture and Fisheries - Crop Insurance Program

Auditors' Report

March 31, 1989

AUDITORS' REPORT TO THE DIRECTOR

We have examined the balance sheet of the B.C. Ministry of Agriculture and Fisheries - Crop Insurance Branch as at March 31, 1989 and the statement of revenue, expenditure and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Branch as at March 31, 1989 and the results of its operations for the year then ended in accordance with the accounting principles described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Peat Marwick

Chartered Accountants

Vancouver, Canada

June 2, 1989

B.C. MINISTRY OF AGRICULTURE AND FISHERIES - CROP INSURANCE BRANCH

Balance Sheet

March 31, 1989
(With comparative figures for 1988)

		1989	1988
Assets			
Due from the Ministry of Finance and Corporate Relations	$	964,541	1,117,712
Premiums receivable:			
Due from insured growers		4,165,680	4,274,047
Premiums subsidy receivable from the Government of Canada		4,136,080	4,240,122
	$	9,266,301	9,631,881
Liabilities and Deficit			
Provision for losses incurred	$	7,161,000	560,000
Unearned premiums		4,684,249	4,758,743
Advances from the Ministry of Finance and Corporate Relations (Note 3)		13,700,000	15,200,000
		25,545,249	20,518,743
Deficit, per accompanying statement		(16,278,948)	(10,886,862)
	$	9,266,301	9,631,881

See accompanying notes to financial statements.

Director

B.C. MINISTRY OF AGRICULTURE AND FISHERIES - CROP INSURANCE BRANCH

Statement of Revenue, Expenditure and Deficit

Year ended March 31, 1989
(With comparative figures for 1988)

		1989	1988
Revenue:			
Crop insurance premiums:			
Premiums from insured growers	$	4,932,281	5,147,855
Premiums subsidy from the Government of Canada		4,932,781	5,158,929
Interest on overdue accounts		20,648	15,121
		9,885,710	10,321,905
Expenditure:			
Losses incurred		15,277,796	7,731,228
Excess of revenue over expenditure (expenditure over revenue)		(5,392,086)	2,590,677
Deficit, beginning of year		(10,886,862)	(13,477,539)
Deficit, end of year	$	(16,278,948)	(10,886,862)

See accompanying notes to financial statements.

B.C. MINISTRY OF AGRICULTURE AND FISHERIES - CROP INSURANCE BRANCH

Notes to Financial Statements

March 31, 1989

The Crop Insurance scheme, introduced in 1967, was established to stabilize farm income by minimizing, at an individual level, the detrimental economic effects of crop losses due to uncontrollable natural perils. Commodities insured under the scheme are grouped into eight programs: tree fruit, grain, forage, grape, berry, vegetable, honey and livestock feed.

1. **Authority:**

   The Crop Insurance scheme is administered by the Province of British Columbia ("the Province"), Ministry of Agriculture and Fisheries under the authority of the Insurance for Crops Act, R.S.B.C. Chapter 202. The Act gives the Minister of Agriculture and Fisheries the authority to enter into an agreement with Her Majesty the Queen in the Right of Canada ("Federal Government") on crop insurance.

2. **Significant accounting policies:**

   (a) Basis of reporting:

   The Crop Insurance scheme financial position and activities are reported in accordance with the Financial Administration Act, and Regulations and Treasury Board Policies and Guidelines.

   (b) Premiums subsidy from the Government of Canada:

   The Crop Insurance Agreement between the Federal Government and the Province requires the Federal Government to match crop insurance premiums received from insured growers. Under the agreement the Province is required to advance the federal contribution to the Crop Insurance Branch ("Branch") and apply for reimbursement from the Federal Government. Premiums subsidy from the Federal Government has been accrued as it is the opinion of management that premiums receivable from insured growers will be collected and are eligible for federal contribution.

2. Significant accounting policies, continued:

(c) Premium revenue:

Premium revenue is included in income on a pro rata basis over the life of the insurance contracts.

Under generally accepted accounting principles for property and casualty insurance companies, in those instances where anticipated future claims and expenses exceed unearned premiums, a provision for premium deficiency is recorded. Due to the nature of operations of the Crop Insurance scheme, the Branch does not record a provision for premium deficiency.

(d) Provision for losses incurred:

Losses are charged to income as incurred. The provision for losses incurred represents the accumulation of estimates from reported losses and those incurred but not reported. The methods of determining such estimates and establishing resulting provisions are continually reviewed and updated, and adjustments resulting therefrom are included in income currently. Since the provision is necessarily based on estimates, the ultimate liability may be more or less than the provision.

(e) Allowance for doubtful accounts:

Credit is normally granted to insureds for the amount of premium, until the insured crop is harvested.

Since losses due to uncollectible accounts have been immaterial in the past no provision is made.

3. Advances from the Ministry of Finance and Corporate Relations:

The Province, in accordance with R.S.B.C. Chapter 202 of the Insurance for Crops Act, has advanced a total of $13,700,000 (1988 - $15,200,000) on an unsecured, interest-free basis to the Branch to fund the premium deficiency.

The Ministry of Finance and Corporate Relations Crop Insurance stabilization appropriation limit is $25,000,000.

4. Costs borne by the Province:

The Crop Insurance Agreement between the Federal Government and the Province requires the Province to pay all the administration costs of the Crop Insurance scheme. Further, the above mentioned agreement states that the premium payable should be revised annually in such a manner as will keep the Crop Insurance scheme self-sustaining. Due to heavy losses in recent years and resulting financial stress to growers, premiums have not increased sufficiently to offset losses. The resulting deficit has been funded through advances from the Ministry of Finance and Corporate Relations (see Note 3). The following schedule discloses contributions of the Province, both to pay administration costs and the estimated cost to the Province of advancing monies on an interest-free basis to the Branch:

		1989	1988
Salaries and benefits	$	1,027,400	991,600
Administration costs:			
Automobile expenses		23,100	31,700
Data processing		65,600	116,800
Machinery and equipment		12,500	3,900
Members' allowances and expenses		9,200	9,900
Miscellaneous		400	4,500
Printing and stationery		15,100	10,400
Professional services		23,000	32,800
Rent		149,200	73,200
Travelling expenses		62,600	46,900
		1,388,100	1,322,600
Estimated cost of borrowing funds which have been advanced on an interest-free basis to the Branch		1,690,000	1,563,000
	$	3,078,100	2,885,600

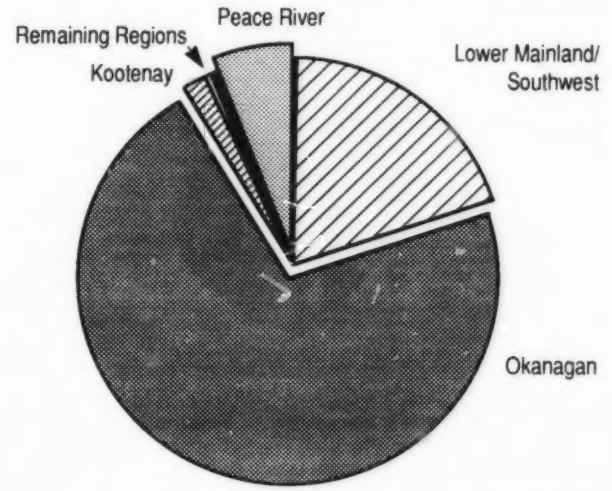
5. Statement of Changes in Financial Position:

A statement of changes in financial position has not been prepared as it would provide no significant additional information.

Selected Statistics for 1988 Crop Year

Total insurance coverage — $90 million

Total Coverage by Economic Development Region



	% of Total Coverage
Region 1 - Vancouver Island/Coast	0.2%
Region 2 - Lower Mainland/Southwest	19.7%
Region 3 - Okanagan	71.5%
Region 4 - Kootenay	1.7%
Region 5 - Cariboo	0.6%
Region 6 - North Coast	0.0%
Region 7 - Nechako	0.2%
Region 8 - Peace River	6.1%

The crop insurance program is widely available within the province with total insurance coverage of $90 million.

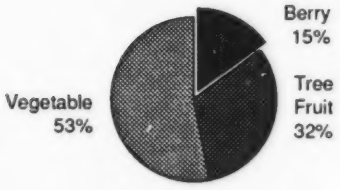
Variation among economic development regions is determined by agricultural capability and participation level in each region.

Crop Insurance by Economic Development Region

Insurance/Region

Region 1

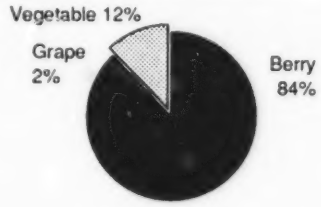
Vancouver Island/ Coast



$ 0.3 million

Region 2

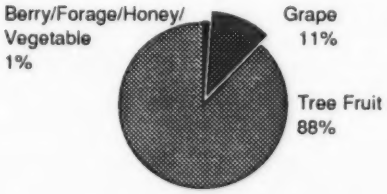
Lower Mainland/ Southwest



$ 17.7 million

Region 3

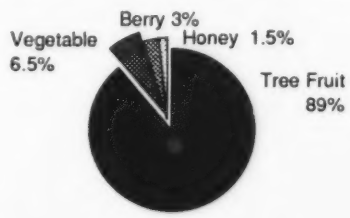
Okanagan



$ 64.3 million

Region 4

Kootenay



$ 1.5 million

Crop Insurance by Economic Development Region

(continued)

Insurance/Region

Region 5

Cariboo

$0.6 million

Region 6

North Coast

No contracts have been underwritten in Region 6 at the present time.

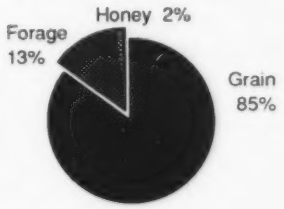
Region 7

Nechako

$0.1 million

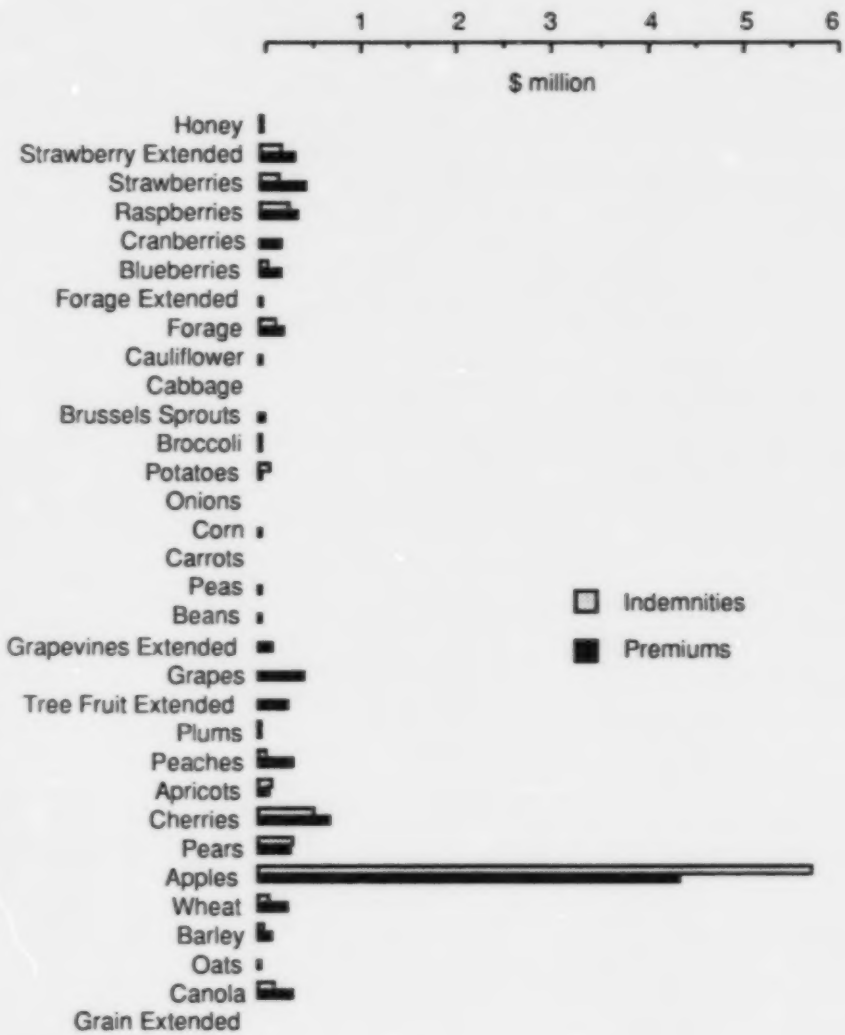
Region 8

Peace River

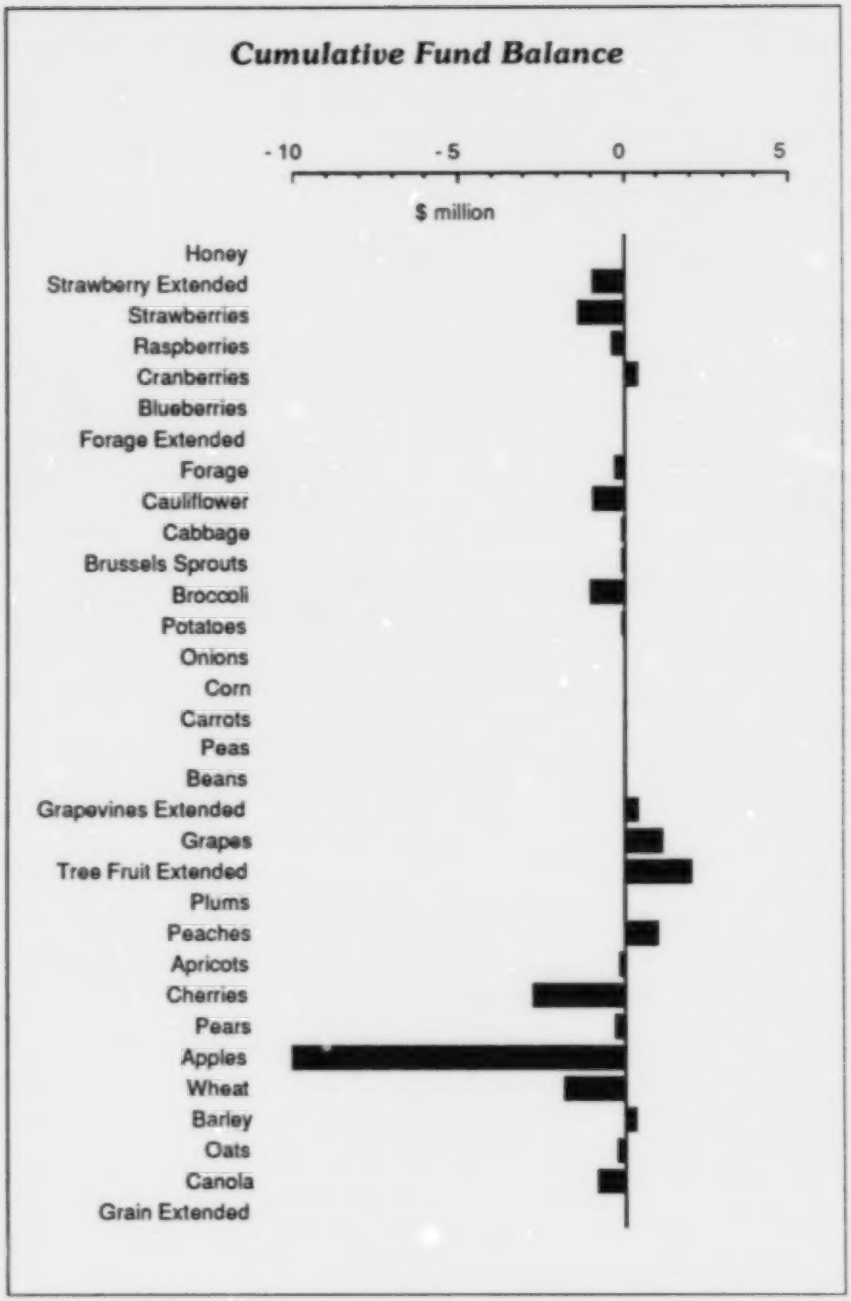


$5.5 million

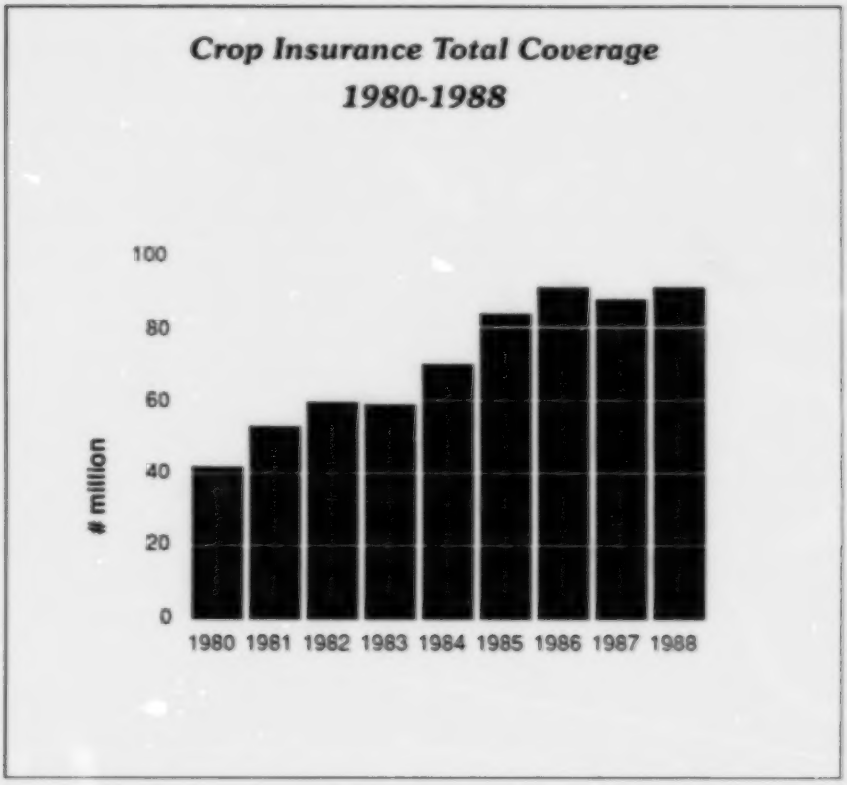
1988 Annual Comparison of Premiums and Indemnities On a Cash Basis for Each Crop



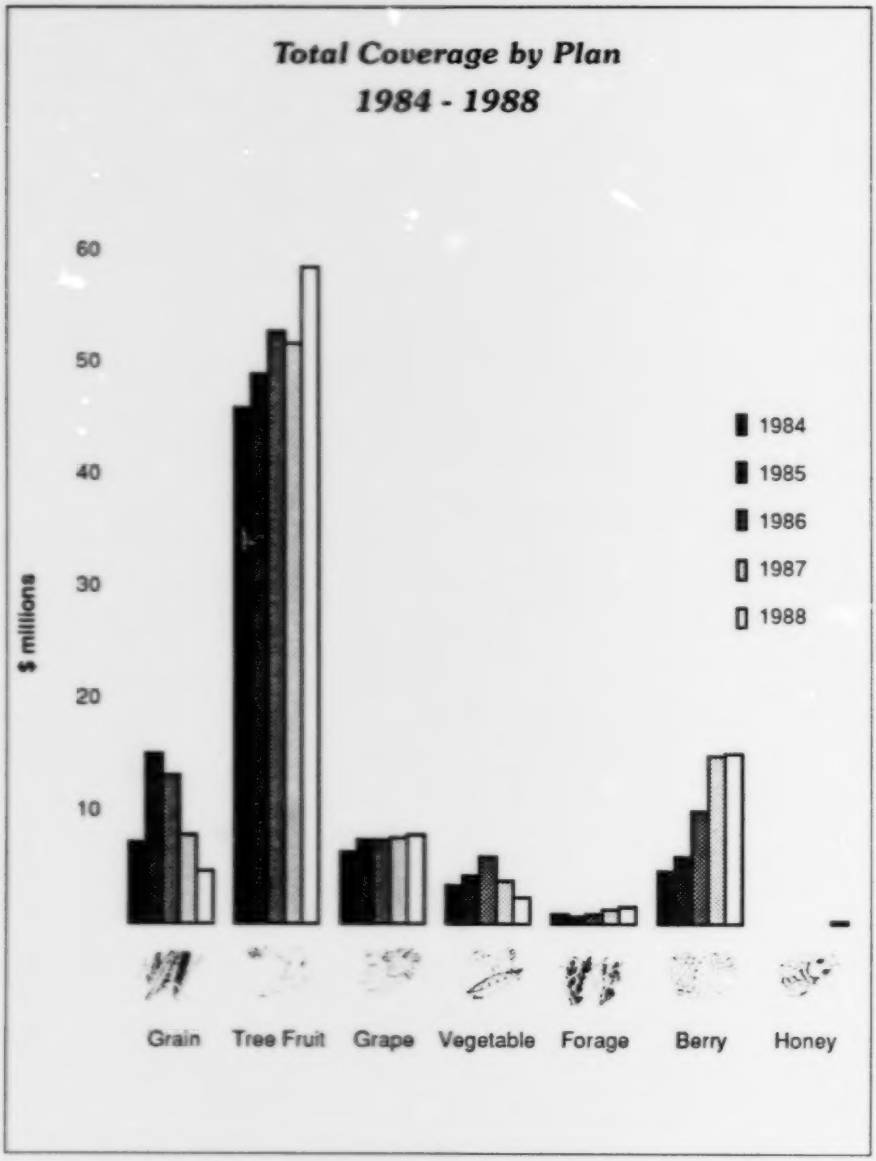
The cumulative fund balance for each crop at the end of the 1988 crop year.



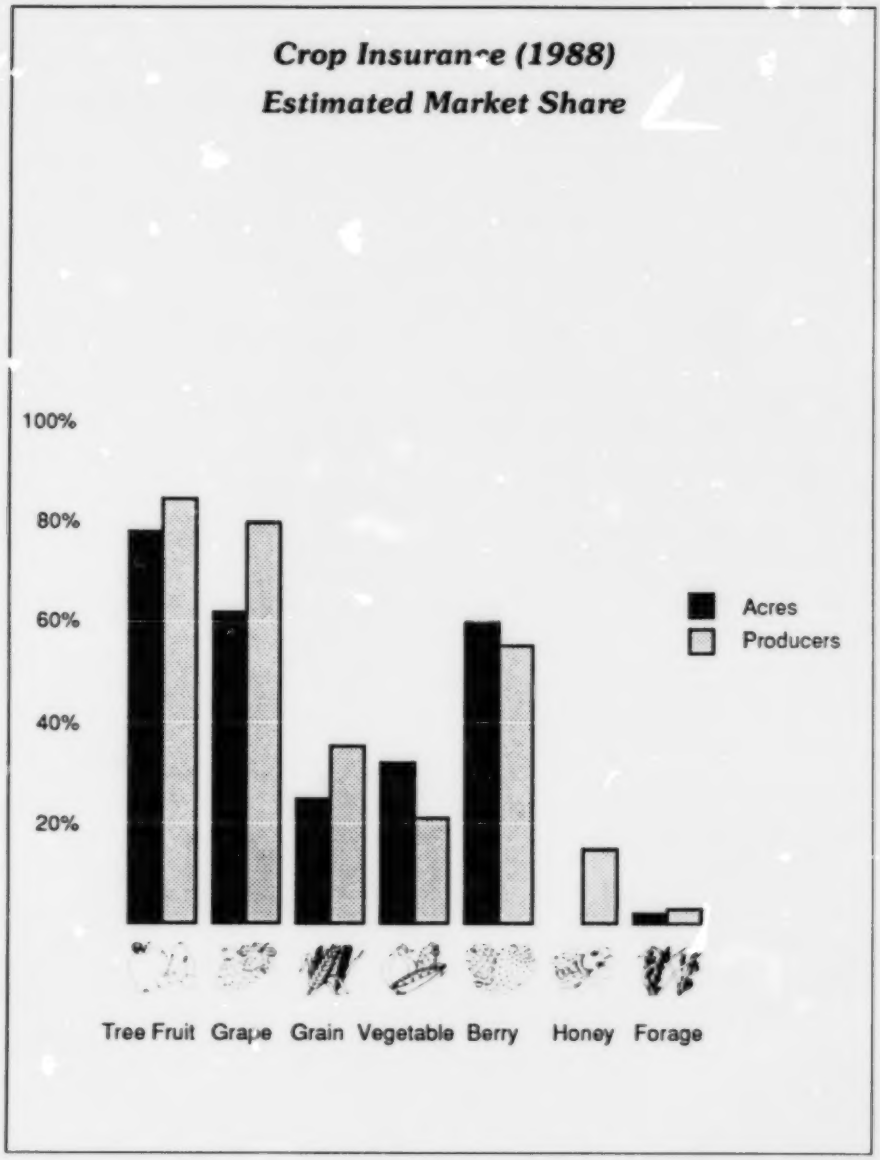
The 1988 crop year insurance coverage of $90 million is more than double the coverage sold in 1980.



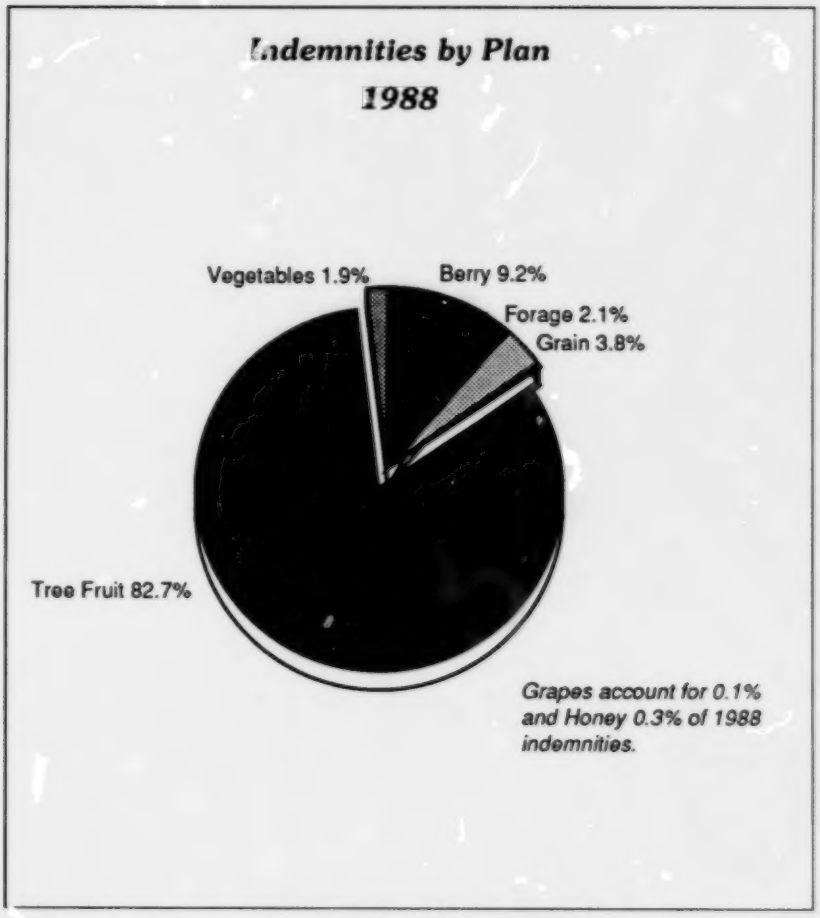
Total coverage in each plan will vary according to the size of the industry in B.C., market participation and commodity prices.



Market penetration is greatest in the tree fruit plan and lowest in forage.

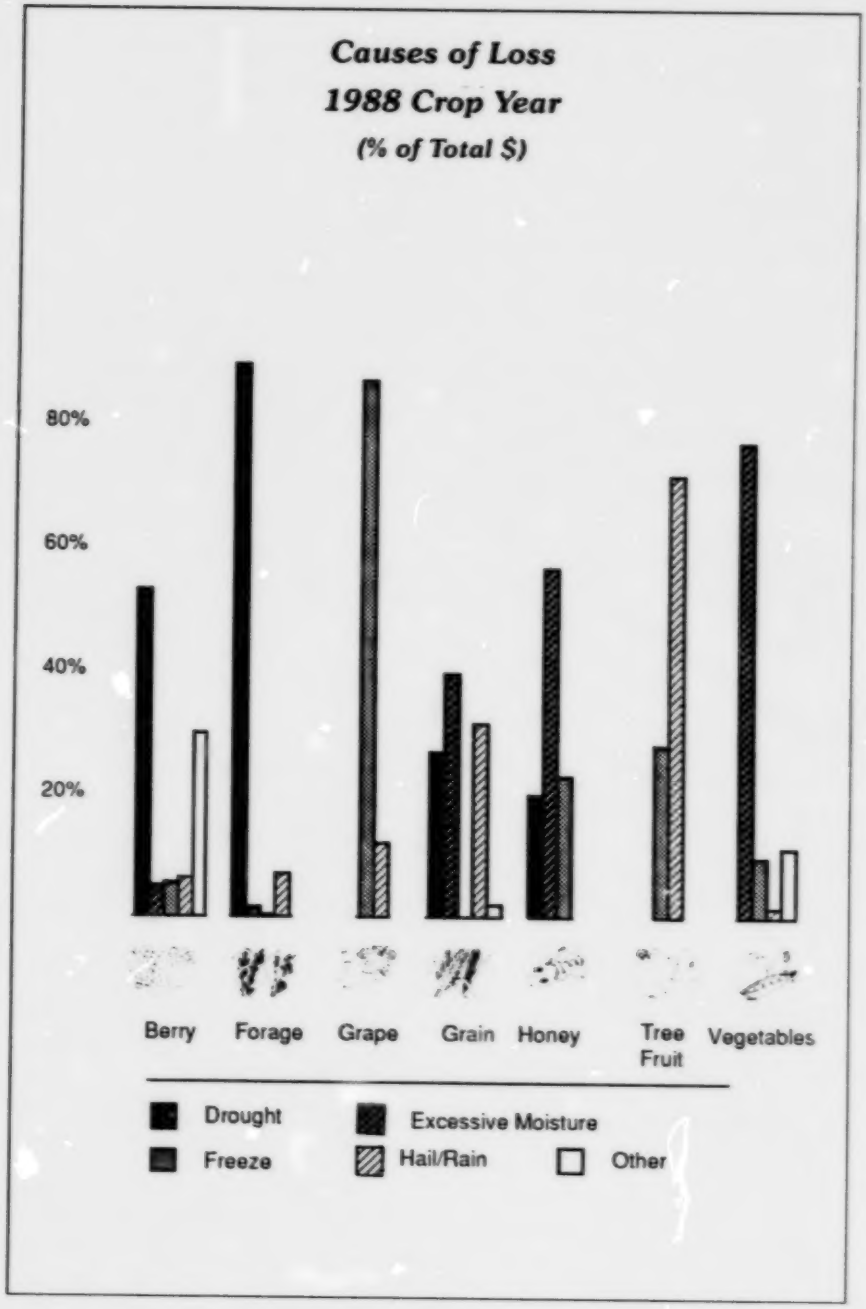


Individualized underwriting combined with a greater emphasis on sales in all plans should produce increases in market penetration in the future. The honey plan currently is offered only in the Okanagan and Peace River areas. The forage plan is to be offered to all producers in the province in 1990.

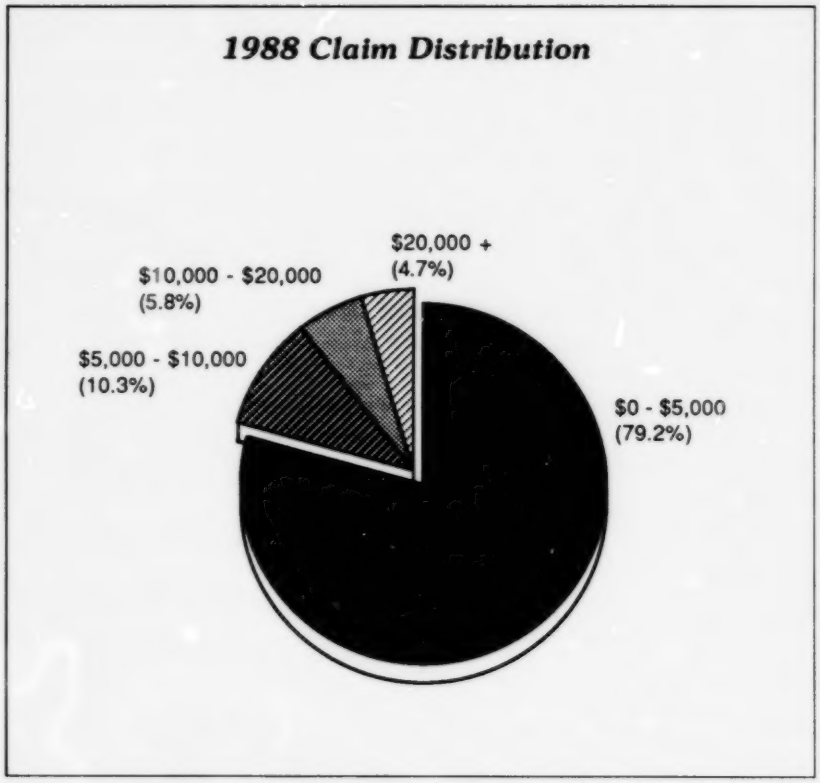


The crop insurance contract specifies for each plan the perils for which coverage is offered.

Hail and freezing temperature were the primary causes of loss affecting the tree fruit plan and resulted in major indemnities paid in 1988.



- *42% of the claims were for indemnities of less than $1000*
- *80% were for amounts less than $5000*

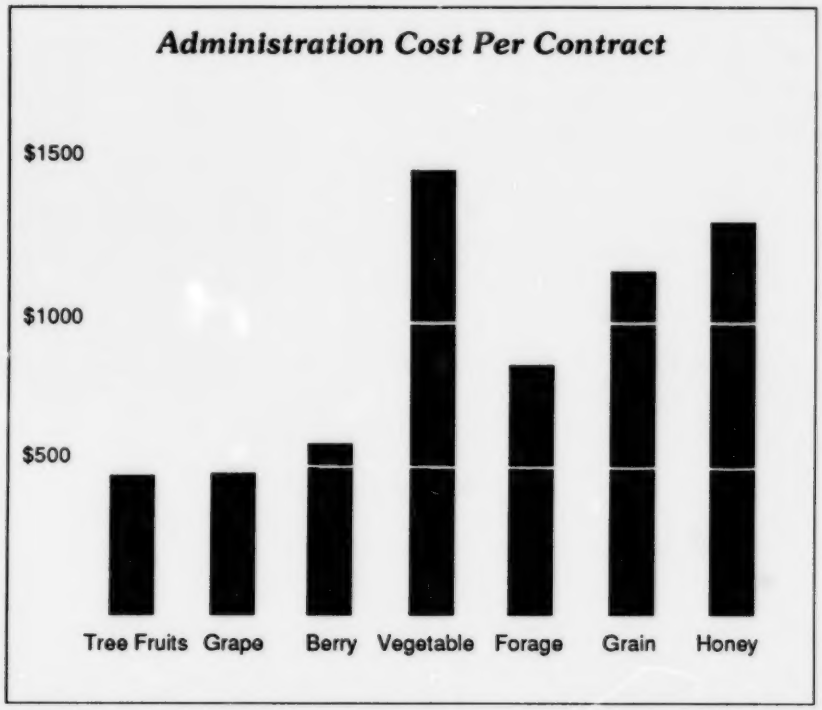


Claims range in size from very small to a significant number of dollars, depending on the extent of losses and the size of the farm insured.

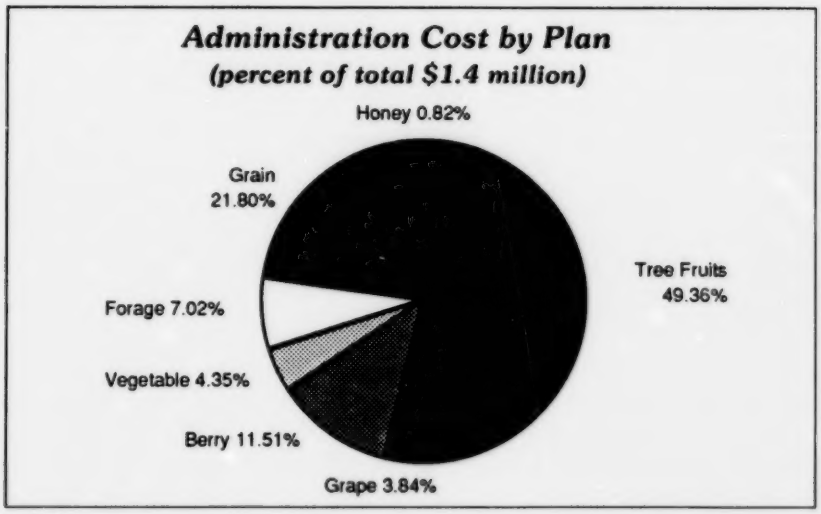
Administration Costs

The province of British Columbia, through the British Columbia Ministry of Agriculture and Fisheries, funds the administration of the Crop Insurance Program. Administration costs of $1.4 million represent all program delivery costs but do not include the annual estimated $1.7 million cost of borrowing funds for the cumulative crop insurance debt.

The number of contracts, the type of crops grown and the geographical dispersion of the farms within a plan affect the administrative costs.



Administration Cost by Crop Insurance Plan



CANADA-BRITISH COLUMBIA Crop Insurance

MINISTRY OF AGRICULTURE AND FISHERIES, 808 Douglas Street, Victoria, B.C. V8W 2Z7

Evaluation Survey

Please take a moment to fill out this survey. Your evaluation of the CANADA-BRITISH COLUMBIA CROP INSURANCE Financial Statements and Selected Statistics reports will help us to improve future reports. Please mail to the above address or deliver by hand to any of the offices listed in the report.

---

1. What percentage of the annual report did you read?

   (please circle) 100% 75% 50% 25% 0

2. Was the report easy to understand?

   (please circle) Very Easy | Easy | Somewhat Difficult | Very Difficult

3. How would you rate the quality of the information contained in the following sections of the report?

(please circle)	Excellent	Good	Fair	Poor
Program Overview	1	2	3	4
Financial Statements	1	2	3	4
Selected Statistics	1	2	3	4

4. How could the report be improved?

   _____

   _____

   _____

   _____

5. What is your major occupation?

   _____ farmer
   _____ farm organization representative
   _____ agribusiness person
   _____ government official
   _____ agricultural specialist
   _____ financial analyst
   _____ other Please specify _____

Agriculture Canada

BC Ministry of Agriculture and Fisheries